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NSC FOR MCKIBBEN

E.O. 12958: N/A
TAGS: EPET ENRG ECON PREL PINR RS
SUBJECT: GAZPROM ASKS U/S JEFFREY TO HELP "MITIGATE
ATMOSPHERE OF MISTRUST."

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION.

¶1. (SBU) Summary: During a July 16 meeting, Gazprom Deputy Chairman Aleksander Medvedev told U/S Jeffrey that EXIM's possible withholding of financing for the Sakhalin 2 LNG project would be neither in the interests of U.S. equipment and service suppliers nor the United States, an export destination of the project's gas. He repeatedly requested a response to the letter sent to EB DAS Paul Simons on the issue. Stressing that Russia "does not discriminate based on national origin," he said that ConocoPhillips is still a candidate for the remaining 24% of the Shtokman gas field development project. Medvedev expressed hope that Gazprom could expand into the U.S. market as well as expand its oil and power-generation businesses. On pipelines to Europe, he suggested the only viable routes were those in which Russia is a partner, as only Russia has the gas to fill the pipelines, given Iran's political baggage and Turkmenistan's inability to adequately increase supply. He believes that domestic gas price liberalization will dampen demand and increase supply, and rejected (without specifics) an IEA analysis that Russia is underinvesting in upstream gas. He asked that we help "mitigate the atmosphere of mistrust." End summary.

EXIM FINANCING FOR SAKH 2 IN U.S. INTEREST

¶2. (SBU) Gazprom's Deputy Chairman (and CEO of Gazprom's export subsidiary) Aleksander Medvedev started his July 16 meeting with U/S Jeffrey by expressing dismay that "under pressure from the State Department" EXIM may not participate in financing the Sakhalin 2 LNG project. Medvedev bluntly suggested that U.S. equipment suppliers and service companies would be negatively impacted by any project delays, while maintaining that EXIM support was marginal and that alternative financing could be found. He also said that, given potential LNG shipments from the project to the United States, he would expect the USG to support the project. He showed a recent letter he had sent to EB DAS Paul Simons, and said he was still waiting for a reply. He suggested that pressure was being applied to the EBRD to withhold financing as well, despite the project, in his view, being a perfect

fit for EBRD financing.

¶3. (SBU) Believing EXIM's decision could not be based on economic considerations, Medvedev repeatedly referred to this issue, again invoking the potential business for U.S. exporters and potential gas deliveries to the U.S. He said he is willing to travel to the United States, if needed, to assuage concerns about Gazprom, adding that there is great potential for increased economic activity between the two countries. "We need to mitigate the atmosphere of mistrust."

GAZPROM -- A LEADING AMERICAN COMPANY?

¶4. (SBU) Medvedev claimed that Russia does not discriminate based on national origin of companies when deciding on business partners. He said ConocoPhillips was still being considered for 24% of the Shtokman gas field project, leaving Gazprom with 51%, with 25% having already been awarded to Total. Medvedev then described Gazprom's aspirations to expand into international markets, specifically citing North America and China, Japan, and Korea. He told an anecdote about a taxi driver in the United States pointing to a BP station, saying "BP is a leading American company," adding that he would like Gazprom to be misidentified that way sometime in the future.

PIPELINES NEED GAS AND WE HAVE ALL THE GAS

¶5. (SBU) Discussing Russia's planned Nordstream and Southstream pipelines, Medvedev said Russia is committed to

multiple export routes for its gas and that Gazprom has allocated 50% of its investment budget to transportation projects. He said Russia needs to diversify away from dependence on Ukraine as a transit route as Ukraine's poorly maintained infrastructure is not reliable. He said the proposed Southstream pipeline under the Black Sea to Bulgaria and Italy would carry Central Asian as well as Russian gas and maintained the alternative Nabucco pipeline would not be able to find the gas it needs to make it economically viable. He laid out three needs for any transport project -- gas, a market, and an understanding between the parties involved. He suggested Nabucco lacks at least two of these essentials as Turkey has no gas and no contracts, and Azerbaijan "does not have enough gas to supply its local market and meet its export commitments."

¶6. (SBU) Medvedev bluntly stated that only Russia, Iran, and Qatar have the gas to meet increased future global demand. Gas from Iran is politically unacceptable to Europe and the United States; gas deliveries from Qatar are limited by LNG production; and Turkmenistan and Azerbaijan are overcommitted. Thus, Russia is the sole potential supplier of increased gas supplies to Europe. "We have the gas, we have contracts, and the market is there."

¶7. (SBU) Dismissing analyses that Russia has underinvested in upstream gas, Medvedev suggested "the IEA analyst who wrote that should be fired." Without providing any specifics, he said Gazprom is investing adequately, and that gas price liberalization in Russia is underappreciated and would lead to dampened demand and increased supply.

¶8. (SBU) Medvedev admitted that human capital is a long-term problem for Gazprom, as it is for other Russian companies. He said Gazprom has a long-term education plan for its employees and that many foreigners now work for Gazprom in Russia -- a situation he described as almost unimaginable in the past.

This cable has been cleared by U/S Jeffrey.